OTSI KETA QUARTERLY

Forty-first Edition - July 2020

OTSI KETA CAPITAL

Q2 2020

Otsi Keta Quarterly is designed to share insight on both current performance and future potential.

IN THIS ISSUE...

QUESTIONS...

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"The consequences of things are not always proportionate to the apparent magnitude of those events that have produced them. Thus the American Revolution, from which little was expected, produced much; but the French Revolution, from which much was expected, produced little."

– Charles Caleb Colton

BETTER THAN EXPECTED

The second quarter marked a sharp improvement in performance for the Fund. Strong outperformance and getting the returns back in the black made working through the lockdown more pleasant. The portfolio was strengthened by adding to a few current positions that were deeply undervalued and had significant cash and liquidity available. We added several new positions when panic selling created the potential for a sharp snap back in share pricing. To pay for our purchases, we raised cash by reducing and eliminating positions we felt would struggle during an expected slow reopening of the economy.

We expect the second half of the year to be volatile; economic data is sure to be uneven and political anxiety will increase as the election draws near. There is no way to know with certainty if we have seen the lows for the year, but we believe it is probable our portfolio saw its lows in March. (At this time, we remain positive on the market and believe it will continue to climb.)

Three words, "better than expected," will create the support for equity prices between now and year end. When companies report their second quarter earnings, they will be poor, but not nearly as bad as people were modeling. Many investors went to the sidelines during the first quarter; most remained there as the market quickly regained its footing. Having missed out on the bulk of the recovery and with interest rates on fixed income assets at record lows, money should continue to flow back into equities over the coming months.

As bottom-up investors, we typically focus most of our efforts on an individual company's prospects and less on the macro environment. Given the state of the world today, we are watching the macro factors more closely, as they represent greater-than-normal uncertainty.

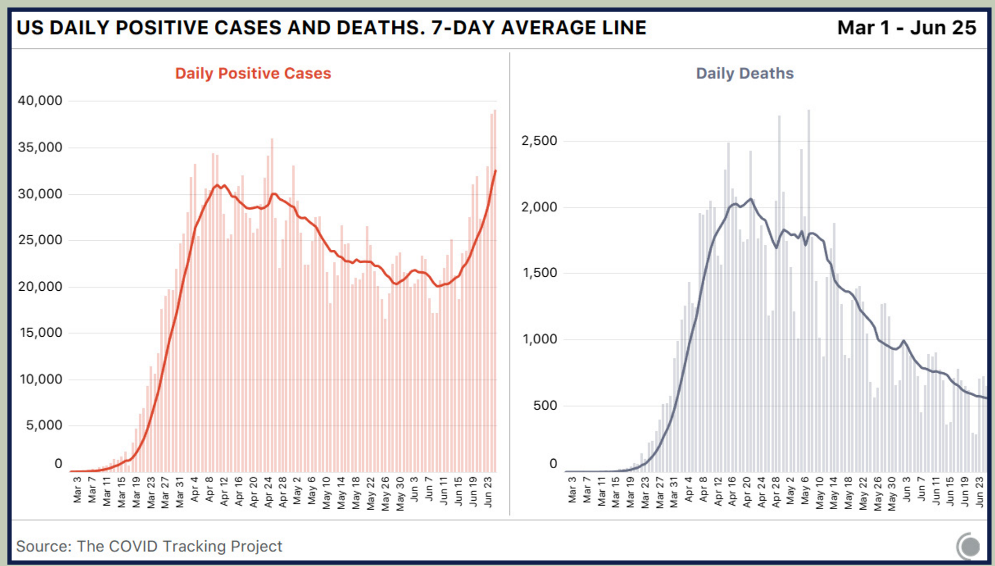
Continued on page 2...

This quarterly newsletter has been prepared by Otsi Keta Capital LLC (OKC), a private investment partnership, for our clients and other interested persons. Within this newsletter, we express opinions about direction of the market, investment sectors and other trends. The opinions should not be considered predictions of future results. Discussion in this newsletter relating to a particular company is not intended to represent, and should not be interpreted to imply, a past or current specific recommendation to purchase or sell a security, and the companies discussed do not include all the purchases and sales by OKC for the fund during the quarter. The information contained in this newsletter, which is based on outside sources, is believed to be reliable, but is not guaranteed and not necessarily complete. Past performance does not guarantee future returns.

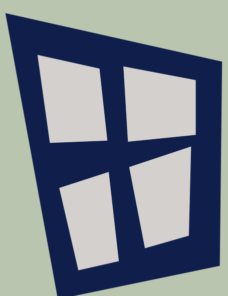
Continued from page 1

We believe in trying to reduce things down to their base properties when possible. COVID-19 remains a major factor in our thinking, and COVID-19 data, while improving, remains punky. The two COVID-19 factors we watch most closely are new cases and daily deaths. While no measure is perfect, these two are more likely, in the political climate, to be overstated. We prefer overstated when managing risk; a false positive causes less loss than a false negative.

New cases have been spiking as the southern states experience increased transmission and broader testing. Daily deaths, while still volatile, trended lower for most of the second quarter.



The Window Indicator



Some might think with our economic events transpiring this year that the Window might be quiet. Quite the contrary. The Window looks different this quarter, but slow wouldn't be a word that we would use.

On the industrial front, COVID-19 and the economic impact from the pandemic has wreaked havoc on the domestic commercial traffic this season to date. Limestone and iron ore demand have been down 15 – 20%, with many North American steel mills temporarily shut down or running at a limited capacity. This has curbed the commercial traffic on the Great Lakes. Fleets were delayed in leaving winter lay-up, and as recent as July 9, the Great Lakes Fleet (a division of Canadian National Rail) announced the early lay-up of three Great Lakes freighters due to poor demand. On a positive note, U.S. Steel announced the restarting of the No. 6 Blast Furnace at Gary Works (Indiana) due to increased automotive demand. No. 4 Blast Furnace still remains idle.

On the agricultural side of shipping, ports have seen double-digit increases in traffic with global grain demand outstripping last year's levels. This has kept a steady stream of North American and International ships on the Great Lakes moving various grain products. The steady stream of wind turbines continues to come through the waterways as well on their way to various U.S. and Canadian destinations.

In local news, the ferry service that plied the waters of the St. Clair River between Sombra, Canada, and Marine City, Michigan, for 70 years has officially come to a close. The service was permanently disrupted during the winter of 2018 when a Canadian Coast Guard cutter allegedly exceeded the river speed limit during a heavy ice period, subsequently destroying the bridge to the docks on the Sombra side. The larger of the two ferries was recently sold with the private business owners in no financial position to restart or repair the service.

And what is the positive or difference this year, you ask? Pleasure boating has gone up dramatically this year due to the stay-at-home orders. Coast Guard units throughout the Great Lakes reported their busiest Independence Day weekend in at least five years. They conducted over 100 search-and-rescue missions assisting more than 300 people. If those stats don't speak to new boat owners, I will close the Window for the rest of the season. Conclusion, consumer discretionary items that get wet are probably in demand this year.

Until the third quarter, stay safe, healthy and cool.

Continued from page 2

Any premature death is tragic, and the virus has caused too many. In March, before the daily deaths began declining, many people extrapolated existing data into economy- destroying death rates. The market reacted in kind. The current data portends a heavy death toll, but one that the economy should be able to withstand. Given the historic amount of fiscal and monetary stimulus provided and the inevitable follow-on spending packages, we are discounting negative economic growth for 2020, followed by a return to strong positive GDP growth in 2021. It will likely take a few years to regain previous employment levels.

Interest rates are the second macro factor supporting the market. With rates at record lows due to federal reserve purchases and policies, bonds remain unattractive in all but the bleakest economic forecasts. As rates approach zero, bond prices have limited upside without rates going negative. Low rates will undoubtedly push people to increase their risk in search of greater returns. Stocks will benefit from the forced risk taking. Low rates help at the fundamental level as well, lowering interest expense, reducing costs of capital for new projects and improving the attractiveness of acquisitions.

Politics is the last big macro factor influencing our thinking. We don't believe a Biden win is priced into the market. A Biden win would likely put downward pressure on markets, initially. As a country, we have had all types of leaders and we caution reading too much into what will and won't happen depending on who is in the White House. Every policy that gets talked up on the stump doesn't make it into law. We are fans of divided government. If the voters look intent on putting one party in control of both houses and the president, we would look to reduce our equity exposure.

OUR PERFORMANCE

For the second quarter ended June 30, 2020, the Otsi Keta Focus Fund was up 42.56% versus the Russell 2000 Value Index up 18.24%. Since inception, the Fund has returned 168.78%. All Otsi Keta Focus Fund numbers mentioned are net of all fees and expenses. Please see the table below to review the performance of Otsi Keta Focus Fund Limited Partnership versus competitive indexes.

Fund Name	ROR 2nd Quarter 2020	Since Inception Annualized	Since Inception
Otsi Keta Focus Fund Limited Partnership*	**42.56%**	**10.21%**	**168.78%**
Russell 2000 Index (^RUT)	25.00%	7.79%	114.42%
Russell 2000 Value (^RUJ)	18.24%	4.32%	53.67%

Sources: Otsi Keta Capital and Russell Investment
*Note: All OKFF performance data is shown net of all fees and expenses and is based on an investment with the maximum charge of 1.5%/10%.

Fund Activity

Market volatility continued to influence the portfolio in the second quarter—this time for the good of our partners. A more balanced approach, truly blending growth with value holdings, allowed the portfolio to take full advantage of the market's rebound from the low set during the third and fourth weeks of March. A nimbler approach to buying and selling allowed the Fund to realize a lot of the profits that were generated. Let's take a look at the activity during the second quarter.

Portfolio Highlights

Position	Activity	Comments
Compass Minerals	Added	Largest player in industrial salt. Strong operating improvements and lowest cost producer.
DCP Midstream Partners	Added	Unduplicatable energy infrastructure and equity price crushed at height of selloff in March.
The Greenbrier Companies	Added	Rail car and barrage manufacturer with superior management team and strong product breadth and depth.
MYR Group	Added	Play on increased investment in the electrical grid and renewable power buildout.
Verso	Added	Timely asset sales created superior balance sheet and focused product line.
Turtle Beach	Exited	Sold after reaching fair value on spike in sentiment as gaming headset sales increased during lockdown.
Mesabi Trust	Exited	Iron ore royalty trust received notice that Cliffs Mining was temporarily suspending ore extraction on trust lands.
Lakeland Industries	Exited	Pandemic play on PPE required for treating COVID-19. Short-term opportunity that played out as expected.
PetMeds	Exited	Sold above fair value as market price rose on optimism for sales and profits from internet-only business.
Invesco S&P Small Cap Financials	Exited	A 2019 position that was giving us exposure to financials through an ETF. Sale was part of decision to eliminate our exposure to banks and insurance companies.

Conclusion

The markets continue to evolve on a daily basis right now and we continue to evolve with them. The amount of activity we saw this quarter was the exception not the norm, but we will continue to act in a way to maximize return for our partners. We can't wait to see what the Fall will bring. Until then, enjoy your summer!

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